

## Message Text

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PAGE 01 LONDON 07812 111736Z

ACTION EB-04

INFO OCT-01 SS-04 EUR-03 NSC-04 NSCE-00 CEA-01 INR-01

FRB-03 CIAE-00 ISO-00 /021 W

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FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 3775

C O N F I D E N T I A L LONDON 07812

LIMDIS GREENBACK

E.O. 11652: XGDS-1

TAGS: EFIN, UK

SUBJECT: H.M. TREASURY ON POST SUMMIT ISSUES

1. FINANCIAL ATTACHE ENTERTAINED SIR DEREK MITCHELL, FORMERLY SECOND PERMANENT SECRETARY, INTERNATIONAL FINANCE, H.M. TREASURY, AT LUNCH ON MAY 11--IN EFFECT SIR DEREK'S FIRST DAY SINCE RELINQUISHING HIS POST AS 2ND PERMANENT SECRETARY. MITCHELL NO LONGER SEES CURRENT PAPERS, WILL SPEND REST OF THIS MONTH EMPTYING HIS IN BOX, BE EMPLOYED BY H.M. TREASURY AS A CONSULTANT UNTIL OCTOBER WHEN HE WILL HAVE SPENT THE IMPOSED 6-MONTH HIATUS BEFORE BEING ALLOWED TO JOIN GUINNESS MAHON AS A DIRECTOR. MOST OF LUNCH WAS TAKEN UP WITH PERSONAL REMINISCENCES. ON POST SUMMIT ELEMENTS HOWEVER SIR DEREK MADE FOLLOWING POINTS:

A) PORTUGAL. HE ASKED IF MAY 16 PARIS MEETING WERE STILL GOING TO BE HELD. HE NOTED SATISFACTORY OUTCOME AT SUMMIT BETWEEN US AND GERMANY ON PORTUGAL BUT ADDED THAT THE CANADIANS (TOWE) HAD ARGUED STRONGLY WITH THE UK THE MAY 16 SESSION SHOULD BE POSTPONED UNTIL AFTER CIEC. INATT REPLIED HIS UNDERSTANDING IS THE MAY 16 PARIS SESSION IS NOT A PLEDGING MEETING, BUT RATHER EXPOSITORY  
CONFIDENTIAL

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PAGE 02 LONDON 07812 111736Z

WITH IMF, IBRD AND PORTUGAL LAYING OUT THE BASIC SITUATION THE US WAS FULLY COGNIZANT OF TIMING DIFFICULTIES CONCERNING CIEC. ON THIS BASIS, MITCHELL SAID HE COULD NOT SEE ANY OBJECTIONS TO MAY 16 DATE. FYI BELIEVE IT MIGHT BE WORTHWHILE INFORMING ANY RECALCITRANT COUNTRIES THAT MAY 16 SESSION IS NOT AIMED AT PLEDGING ACTUAL CONTRIBUTIONS.

B) JAMAICA. MITCHELL SAID HE HAD NOT HEARD ANY SUBSTANTIVE DISCUSSION AT SUMMIT OF JAMAICA EXCEPT A PASSING REFERENCE FROM DENIS HEALEY DURING THE SATURDAY MORNING SESSION. SHOULD A CONSORTIUM BE PUT TOGETHER, MITCHELL CONSIDERED THE CANADIANS HAVE A ROLE TO PLAY, THE MORE SO SINCE JAMAICA FALLS WITHIN THE CONSTITUENCY OF COUNTRIES WHICH CANADA REPRESENTS AS EXECUTIVE DIRECTOR IN SOME INTERNATIONAL ORGANIZATIONS.

C) THE IMF'S ROLE. MITCHELL SAW LENDING TO PORTUGAL AND POSSIBLY JAMAICA AS A MICROCOSM OF THE UK'S OWN DIFFICULTIES. IN THE PAST, HAVING THE IMF SPEARHEAD SUCH OPERATIONS ENABLED CONDITIONALITY TO BE IMPOSED. HE FEARED THAT A CONSORTIUM TYPE LENDING AGREEMENT ONLY INVOLVING THE IMF AT THE PERIPHERY COULD DILUTE CONDITIONALITY AND IMF INFLUENCE. HE SAW OTHER SMALLER COUNTRIES DOWN THE ROAD COMING INTO SIMILAR DIFFICULT SITUATIONS, THE NEXT ONE PROBABLY BEING TURKEY--WHERE DEFAULT IS A PROBABILITY.

D) THE UK. POLITICALLY, MITCHELL WAS NOT SANGUINE ABOUT THE POSSIBILITY OF AN EFFECTIVE PHASE 3, SEEING AVERAGE EARNINGS INCREASING IN THE YEAR FROM AUGUST 1, IN THE RANGE OF 15 - 20 PERCENT. HE DID NOT SEE INFLATION REDUCED TO 9 PERCENT BY MID 1977: I.E., THE CHANCELLOR'S TARGET; 13 TO 14 PERCENT WOULD PROBABLY BE THE MINIMUM. POLITICALLY, AFTER POSSIBLY A FALL BUDGET THIS YEAR AND A SPRING BUDGET NEXT THAT WOULD INCLUDE EITHER EXPANSIONARY ELEMENTS OR BE RELATIVELY NEUTRAL, DEPENDING ON HOW BADLY PHASE 3 COMES OUT, AN ELECTION AFTER THE SPRING BUDGET WAS HIS BEST GUESS. FINATT REMARKED THAT BRITAIN SHOULD AT LEAST HAVE A

CONFIDENTIAL

PAGE 03 LONDON 07812 111736Z

BALANCE OF PAYMENTS SURPLUS BY THAT TIME THAT WOULD BE INCREASING MONTH BY MONTH. MITCHELL REMARKED YES, BUT COUPLED WITH HIGH INFLATION AND HIGH UNEMPLOYMENT. PLEASE PROTECT MITCHELL AS SOURCE OF INFO IN THIS PARAGRAPH.

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## Message Attributes

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Margaret P. Grafeld  
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